



OFFICE OF MANAGEMENT AND BUDGET

2017 North American Industry Classification System (NAICS) Revision

Agency: Executive Office of the President, Office of Management and Budget.

Action: Notice Regarding Implementation of the Factoryless Goods Producer Classification in NAICS 2017

Summary: Under the authority of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 1104(d)) and the Paperwork Reduction Act of 1995 (44 U.S.C. 3504(e)), the Office of Management and Budget (OMB) is announcing that the Factoryless Goods Producer (FGP) recommendation will not be implemented in the 2017 NAICS revision. The August 17, 2011, *Federal Register* notice (76 **FR** 51240 – 51243) announcing OMB's final decisions for NAICS 2012 required Federal statistical agencies to implement the FGP classification beginning no later than 2017. However, the Economic Classification Policy Committee (ECPC), which advises OMB on periodic revisions to NAICS, recently reported to OMB that results of preliminary research on the effectiveness of survey questions designed to identify Factoryless Goods Producers (FGP) shows inconsistent results. These results indicate that questions tested in the 2012 Economic Census fail to yield responses that provide accurate and reliable identification and classification of FGPs. The ECPC has advised that additional research, testing, and evaluation are required to find a method for accurate identification and classification of

FGPs, and that this process could take several years. Given these initial research results and the large number of public comments submitted on the topic of FGPs, OMB here announces that the FGP recommendation will not be implemented in 2017. OMB is taking this action now in order to give the affected agencies notice that the directive of the August 17, 2011, *Federal Register* notice (76 **FR** 51240 – 51243) is no longer in force. Without the deadline imposed by the 2017 NAICS revisions, the relevant statistical agencies will now have the opportunity to complete the additional research, testing, and evaluation needed to determine the feasibility of developing methods for the consistent identification and classification of FGPs that are accurate and reliable. This process will also be informed by questions raised in public comments. Results of this research, testing, and evaluation could lead to a different FGP proposal for consideration or implementation. More information about this announcement may be found in the **Supplementary Information** section below.

Dates: Issue date: **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**

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Supplementary Information:

Background of NAICS: NAICS is a system for classifying establishments (individual business locations) by type of economic activity. Its purposes are: (1) to facilitate the collection, tabulation, presentation, and analysis of data relating to establishments; and (2) to promote uniformity and comparability in the presentation and analysis of statistical data describing the North American economy. Federal statistical agencies use NAICS to collect or publish data by industry. It is also widely used by State agencies, trade associations, private businesses, and other organizations.

Mexico's *Instituto Nacional de Estadística y Geografía* (INEGI), Statistics Canada, and the United States Office of Management and Budget (OMB), through its Economic Classification Policy Committee (ECPC), collaborated on NAICS to make the industry statistics produced by the three countries comparable. NAICS is the first industry classification system developed in accordance with a single principle of aggregation, the principle that producing units that use similar production processes should be grouped together in the classification. NAICS also reflects changes in technology and in the growth and diversification of services in recent decades. Industry statistics presented using NAICS 2012 are comparable, to a large extent, with statistics compiled according

to the latest revision of the United Nations' International Standard Industrial Classification (ISIC, Revision 4).

For these three countries, NAICS provides a consistent hierarchical framework for the collection, tabulation, presentation, and analysis of industry statistics used by government policy analysts, by academics and researchers, by the business community, and by the public. Under NAICS, each domestic establishment receives a six-digit code that is generally comparable across the three countries at the five digit level. The sixth digit is reserved for country-specific detail that can vary across the three countries. Thus, under *NAICS United States*, each domestic establishment physically located in the United States is assigned a six-digit code. Establishments located outside the United States, regardless of ownership, are outside the scope of *NAICS United States* and are not coded or included in information collections using NAICS.

Implementation of the Factoryless Goods Producer Classification: The August 17, 2011, *Federal Register* notice (76 **FR** 51240 – 51243) announcing OMB’s final decisions for NAICS 2012 required Federal statistical agencies to implement the FGP classification beginning no later than 2017. In response to the May 22, 2014, *Federal Register* notice soliciting comments on possible changes to NAICS for 2017 (79 **FR** 29626-29629), OMB’s ECPC received input from a wide variety of parties. These comments included approximately 22,000 individual comments addressing Part V of the notice -- “Update on the Treatment of Manufacturing Units that Outsource Transformation” (also commonly identified in responses as the “ECPC Factoryless Goods Producer” proposal). Additional

information about NAICS, the ECPC, and the FGP recommendation is available at www.census.gov/naics.

OMB appreciates the time and effort that went into preparing these responses and offers thanks to all who submitted comments and participated in the consultation. The comments will help inform the ECPC as it works to find a solution to identifying and classifying FGPs consistently. The ECPC, through OMB, will address the comments submitted as part of the regular NAICS review process to develop a full set of recommendations for the 2017 NAICS revision. However, continuing research on agencies' ability to identify FGPs through survey questions combined with the large number of comments on this topic indicate that agencies need an opportunity to perform additional research, testing, and evaluation on FGPs without the burden of simultaneously implementing an unsatisfactory approach to the 2012 NAICS FGP decision for 2017 reference year data. This announcement to remove the requirement for agencies to implement the FGP recommendation by 2017 is designed to provide agencies with that opportunity.

The FGP proposal resulted from the fact that there was no guidance on where to classify FGPs and, consequently, they could be classified in different industries and different sectors by different programs. This inconsistent classification and the resulting ambiguity in source data may affect the reliability of statistical estimates for these industries throughout the statistical system and thereby affect measures of economic activity such as GDP, employment, and productivity. Inconsistent classification can

result in statistical estimates that provide false signals to data users and policy makers relating to both the magnitude and direction of any economic changes.

As indicated in the May 22, 2014, *Federal Register* notice, the agencies represented on the ECPC have been conducting research for several years on how to consistently identify and classify business establishments that are factoryless goods producers. This research included special questions in the 2012 Economic Census. During the comment period that ran from May 22, 2014, to July 21, 2014, this research continued with interviews of 2012 Economic Census respondents who answered inquiries on the purchase of contract manufacturing services (i.e., outsourcing transformation) from manufacturing, wholesale trade, and enterprise support establishments. The interview results exhibited enough inconsistency to convince the ECPC that the questions, as tested in the 2012 Economic Census, would not yield accurate and reliable identification and classification of FGP establishments by industry. Additional research is continuing and further research, testing, and evaluation are being planned that will take place over the next few years to develop a solution for the consistent identification and classification of FGPs that is accurate and reliable. Results of this research, testing, and evaluation could lead to a different FGP proposal for consideration or implementation.

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